LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7629 **NOTE PREPARED:** Jan 9, 2005
BILL NUMBER: HB 1796 **BILL AMENDED:**

SUBJECT: Teacher early retirement incentive.

FIRST AUTHOR: Rep. Borders **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill for purposes of computing the retirement benefit for a member of the teacher's retirement fund, provides for a retirement incentive of an additional three years of service credit for a member who: (1) retires after May 1, 2005, and before July 1, 2006; and (2) has completed at least 25 years of creditable service on the member's retirement date.

Effective Date: May 1, 2005.

Explanation of State Expenditures: There are about 9,841 members of Teacher's Retirement Fund, "TRF , that would qualify for the additional three years of service credit. The fiscal impact depends on the additional number of members that might choose to retire between May 1, 2005 and July 1, 2006. It is projected that normally about 2,191 members would retire during the period. The minimum fiscal impact, assuming no additional members retired, would be an increase in payout of benefits of about $3.7 M and an increase in the unfunded accrued liability of the fund of about $40 M. If the incentive increase resulted in an increase of about 20% in the number of retirees then the increase in payout would be about $12.8 M and the increase in the unfunded accrued liability of the fund would be about $139.2 M.

Explanation of State Revenues:

Explanation of Local Expenditures: The incentive could create a saving for local schools if the additional teachers that might retire were replaced with teachers at a lower salary. The savings would possibly be offset by increased local pension costs and additional TRF costs. Local schools have pension programs separate from the TRF benefits. The average salary of the retiree is projected to be $58,500. If the retiree was replaced with a teacher at the state average then the saving would be about $12,700 the first year. From the $12,800 the school would have to pay about $4,200 to TRF, since the new hire is a member of the 1997 fund. According to the School Boards Association most schools provide $2,000 in salary adjustments for unused sick and vacation time. In addition the average severance benefits for schools that have not funded their benefits with pensions bond is $20,376. As a result a local school may have an increased savings or increase expenditures depending on if the additional retiree is replaced and the level of severance benefits given.

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: Local Schools.

Information Sources: Department of Education Certified Staff Report.

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